

AC07/04

COVER SHEET FOR COMMITTEE PAPERS

Committee Title	Audit Committee
Date of Meeting	9 October 2007
Item Number and Title/Subject	Internal Audit Annual Report for the year ended 31 July 2007
Author	PricewaterhouseCoopers LLP
Brief Summary of Issues/Topic	Internal Audit Annual Report for the year ended 31 July 2007
Recommendation(s)	Audit Committee Members should note the Annual Report
Strategic Policy Implications	Not Applicable
Financial Implications	None
Equal Opportunities Implications	None
Freedom of Information	
Can this paper be included in open business?	Yes
If No or Yes in edited form, why must the paper (or parts of it) be withheld and for how long?	
Stakeholder Interest	
Risks	Not Applicable
Consultation	Director of Finance and Deputy Finance Director

Government and Public Sector
Internal Audit Services

October 2007

Glasgow Caledonian University

Internal Audit Annual Report for the year ending 31 July 2007



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1. Background and scope

Background to this report

1.1 It is accepted "best practice" that the Head of Internal Audit provides the Audit Committee with an Annual Statement on the effectiveness of internal controls based on the work carried out during the financial year. This report constitutes this statement and covers the period from 1 August 2006 to 31 July 2007. The Audit Committee should use this and other sources of assurance it has gained during the year to make an Annual Report to the Court. Additionally we would expect our report to help inform the Court's consideration of the annual Corporate Governance Statement. The opinion of the internal auditors does not supersede the Court's responsibility for risk, control and governance.

1.2 Whilst our report is a key element of the assurance framework required to inform the Corporate Governance Statement, there are also a number of other sources from which the Accountable Officer should gain assurance. The level of assurance required from Internal Audit was agreed with the Accountable Officer at the beginning of the year and presented in our annual internal audit plan. As such, our opinion does not supplant the Accountable Officer's responsibility for forming their own overall opinion on internal controls, governance arrangements, and risk management activities.

Acknowledgements

1.3 We are grateful for the assistance that was provided to us by Glasgow Caledonian University staff in the course of our work.

2. Our annual opinion

Introduction

2.1 Under the terms of our engagement we are required to provide the accountable officer with an opinion on the overall **adequacy and effectiveness** of the organisation's:

- risk management;
- control; and
- governance processes.

2.2 Collectively we refer to all of these activities in this report as "**the system of internal control**".

2.3 Our opinion is based on the audit work performed as set out in the 2006/07 internal audit plan agreed by the Audit Committee in October 2006. Our opinion is subject to the inherent limitations set out at Appendix C of this report.

Annual opinion on internal controls

2.4 It is management's responsibility to develop and maintain a sound system of internal control, and to prevent and detect of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

2.5 We have planned our work so that we had a reasonable expectation of detecting significant control weaknesses. However, internal audit procedures alone, although they are carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

2.6 We have completed the programme of internal audit work for the year ended 31 July 2007 and can report that our work did not identify any significant control weaknesses that we consider to be pervasive in their effects on the system of internal control. We have not identified any weaknesses from our audit work during the year that we consider should be included as '**Significant Internal Control Issues**' in your Annual Corporate Governance Statement. During the course of our Internal Audit work we identified two high priority findings, which are outlined in Appendix B. Management have taken the necessary corrective action to address these findings and progress will be followed up as part of our 2007/08 Internal Audit plan.

3. Internal audit work conducted

3.1

Our internal audit work has been conducted in accordance with the engagement contract, the GIAs and the agreed Strategic and Annual Internal Audit plans. We set out below the results of our work in terms of the number and relative priority of findings.

Planned audit cover	Status	Total recommendations	Business Critical	High	Medium	Low
Governance, Risk and Compliance						
Corporate Governance	Draft	5	-	-	3	2
IT Assurance and Effectiveness						
IT Computer Controls Review	Final	10	-	1	7	2
Operational Assurance and Effectiveness						
Non- SHEFC Income Generation	Final	5	-	-	3	2
Capital Planning	Final	5	-	-	1	4
Process Assurance and Improvement						
Corporate Governance Statement	Final	N/a	N/a	N/a	N/a	N/a
Payroll and Expenses	Final	5	-	-	3	2
Fixed Assets and Inventory listings	Final	7	-	1	5	-
Follow Up	Final	N/a	N/a	N/a	N/a	N/a
Review of Voluntary Early Release Scheme (VERS)	Final	N/a	N/a	N/a	N/a	N/a

Changes to the Internal Audit Programme 2006/07

Risk Management and Full Income Budgeting

During the year the Internal Audit plan was revised to take into consideration the University's revised risk management arrangements and delays in rolling out performance measurement across the University. Therefore, in discussion with Management it was determined that a review of risk management arrangements would be undertaken in September 2007 as part of the 2007/08 Internal Audit Plan to allow management time to devise and implement Business Unit and Support Department risk registers. In place of the review of performance measurement it was determined by the Audit Committee in April 2007 that this would be replaced with a review of the full income budgeting process recently completed for 2007/08 before the roll out of next years business planning process. This review has been scoped and agreed with management to be undertaken in September and October 2007 as part of the 2007/08 Internal Audit Plan. The review of full income budgeting will be linked with our risk management work and discussed with each individual business unit Dean.

Business Continuity Planning

After discussions with Management in relation to the internal review of BCP that was being undertaken by Management it was determined that Internal Audit should review current progress in respect of BCP and the project plan timetable and approach for rolling out BCP arrangements. The output from this review has been presented to the Audit Committee in the form of a briefing paper.

Human Resources

Included within the 2006/07 Internal Audit Plan were 15 days for Internal Audit review of HR. After a number of discussions with HR Staff during 2006/07 regarding how best to use the available internal audit resource it was determined that the available days should be rolled forward into the 2007/08 plan. Within the 2007/08 Internal Audit Plan an HR review has been agreed and this will be done in the first quarter of the programme.

Other Internal Audit Work Undertaken during the year

In August 2007, we undertook a review of the University's payments made to Senior employees under the Voluntary Early Release Scheme ("VERS") in accordance with guidance from the Scottish Funding Council. As at September 2007 the remaining HR Internal Audit days had not been utilised.

Results of follow-up work

We conducted a follow-up review of all 2005/06 reports during May 2007. Good progress had been made by management implementing actions in accordance with the agreed timetable and a number of high priority findings were either completed or in progress.

Implications for next year's internal audit plan

The 2006/07 Internal Audit Reports highlighted above will be followed up in conjunction with management as part of the 2007/08 Internal Audit Plan.

Appendix A: Progress during 2006/07

We have used the internal audit annual report as an opportunity to reflect on the progress made within Glasgow Caledonian University in relation to the development of the governance, risk management and internal control framework.

Corporate Governance

During 2006/07, Management have taken the opportunity to review the University's Corporate Governance arrangements in line with recommended practice guidance provided by the Scottish Funding Council. The outcome of this self assessment was positive, whilst identifying a number of areas for future consideration to ensure the University continues to comply with recommended governance practices.

Risk Management

The University during the year (2006/07) has updated it's corporate risk register and formalised it's risk management strategy. The risk register format and risk management arrangements have been cascaded down throughout the university with individual schools and departments preparing risk registers.

Commitment to continuous improvement

All the internal audit assignments (within discrete operational areas and in respect of the key business systems) had a value for money component, as well as providing assurance on the effectiveness of the management and internal control arrangements. Our recommendations have led to improvements in the governance and internal control arrangements, as a result of the implementation of best practice or enhanced efficiency and effectiveness.

Working in partnership

As your appointed internal auditors, we will continue to work with you to provide the independent challenge that you value and pro-actively support the development of your governance, risk management and internal control arrangements. Working closely in partnership with University Management, we anticipate that further progress and improvement can be achieved during 2007/08.

Appendix B: High priority findings reported in 2006/07

IT General Computer Controls Review - Removal of leavers from the systems on a timely basis

Finding - From our review of the processes in place to review leavers from the university's IT systems. It was noted that there is no robust process in place to ensure all staff are removed when no longer employed. From our sample testing of 10 identified leavers, 9 were found to be still listed IT users.

Recommendation - All leavers should be notified to IT on a timely basis to ensure that they are removed from all systems and applications. The removal of leavers should be tested on a sample basis throughout the year to ensure that users have been removed from the systems.

Management Response - A policy and process is in place for Students which is the best practicable option.

A process is in place for staff which is evolving as different situations arise. All staff leavers will be triggered or verified by the HR department; procedures are constantly under review and are being amended to fit with a typical and part time staff who are most difficult to deal with.

Fixed Assets and Inventory Listings Review - Maintenance of University Inventory listing

Finding - A central Inventory Listing to record the details of all equipment held by the University is maintained by Finance. This was last updated in April 2005.

Whilst six out of eight schools maintain their own Inventory Listings review of these revealed that some were out-of-date, the level of information varied and in most cases assets were not uniquely identified.

Recommendation - Management should update the central Inventory Listing as soon as possible in order to have a complete record of all equipment owned and managed by the University. Schools should be encouraged to create and maintain their own Inventory Listings in order to have adequate control over equipment management. Standard guidance on the format of the Inventory listings should be issued by Finance, at a minimum this should include: Equipment description including make, model and serial number, location, cost centre and ownership; change history and audit trail.

These listings should be subject to periodic review by Finance.

Management Response - Agreed, the Finance Office will work with Schools and IT to establish a comprehensive and up to date Inventory and to ensure a system is put in place to update this on a consistent and regular basis.

Appendix C: Limitations and responsibilities

Limitations inherent to the internal auditor's work

Internal control

Internal control, no matter how well designed and operated, can provide only **reasonable** and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and of internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We have planned our work so that we had a reasonable expectation of detecting significant control weaknesses and, if detected, we carried out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

We have carried out sufficient procedure to confirm that we are independent from the organisation and management.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

Basis of our assessment





In accordance with the Good Practice Guidance supporting the Government Internal Audit Standards, our assessment on risk management, control and governance is based upon the result of internal audits completed during the period in accordance with the Plan approved by the Audit Committee and the accountable officer. We have obtained sufficient, reliable and relevant evidence to support the assertions that we make within our assessment of risk management, control and governance.

Access to this report and responsibility to third parties

This report has been prepared solely for the Glasgow Caledonian University in accordance with the terms and conditions set out in our engagement contract. We do not accept or assume any liability or duty of care for any other purpose or to any other party. However, we acknowledge that this report may be made available to third parties, such as the external auditors. We accept no responsibility to any third party who may receive this report for any reliance that they may place on it and, in particular, we expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

Appendix D: Risk ratings

Definition of risk ratings within our individual audit assignments

Risk rating	Assessment rationale
 Critical	<p>Control weakness that could have a significant impact upon not only the system, function or process objectives, but also the achievement of the organisation's objectives in relation to:</p> <ul style="list-style-type: none"> the efficient and effective use of resources the safeguarding of assets the preparation of reliable financial and operational information compliance with laws and regulations
 High	<p>Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organisational objectives.</p>
 Medium	<p>Control weakness that has a low impact on the achievement of the key system, function or process objectives; or This weakness has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.</p>
 Low	<p>Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.</p>

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 or Freedom of Information (Scotland) Act 2002 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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